Section 69.605 **REPORTING AND DISTRIBUTION OF POOL ACCESS REVENUES**

(Remains the same except that reference to §§ 69.607 through 69.610 changes to §§ **69.607 and 69.608**. See also NECA Petition for Rulemaking regarding Proposed Revision of Section 69.605 of the Commission's Rules to Allow Small Cost Settlement Companies to Elect Average Schedule Settlement Status, filed September 13, 1993.)

Section 69.606 **COMPUTATION OF AVERAGE SCHEDULE PAYMENTS.**

(Remains the same except that reference to § 69.607 changes to § **69.608(d)**.

Section 69.607 **COMPUTATION OF OPTIONAL INCENTIVE PAYMENTS**

(a) **General**. The association may offer optional incentive plans on an elective basis to association tariff participants. Such incentive settlement payments shall be made in accordance with incentive formulas as described herein. The incentive formulas shall be separated into three service groups: Common Line, Traffic Sensitive Switched Access and Traffic Sensitive Special Access. Each study area shall have its own settlement rate for each formula. The settlement rates shall be set for two-year periods based upon historical revenue requirements and demand. The settlement formulas shall be based upon the prescribed rate of return applicable to the period the rates are in effect. The settlement formulas shall be structured as follows:

(1) Common Line settlements shall be based on retention of tariff End User Common Line revenues and a Carrier Common Line settlement rate per switched access minute. For the Small Company Incentive Option described in 69.607(b), this rate will be calculated using the same method prescribed in § 61.39(b)(3) for cost schedule carriers or 61.39(b)(4) for average schedule carriers. For the Customer Dividend Option described in 69.607(c), this rate will be calculated using the method prescribed in 61.50(k) but reduced each year of the four-year period by a customer dividend of 0.65%.

(2) Traffic Sensitive Switched Access settlements shall be based on a settlement rate per switched access minute. For the Customer Dividend Option described in 69.607(c), this rate will decline each year of the four-year period by 0.65%.

(3) Traffic Sensitive Special Access settlements shall be based on a retention ratio applied to tariff Special Access revenues. For the Customer Dividend Option described in 69.607(c), this retention ratio will decline each year of the four-year period by 0.65%.

(4) Traffic Sensitive Switched and Special Access settlements for the small company option described in 69.607)b) will be calculated as prescribed by 61.39(b)(1) for cost schedule carries and 61.39(2) for average schedule carriers.

(b) **Pool Small Company Incentive Option.** This incentive option provides an optional settlement method for association tariff participants that are Subset 3 carriers as described in § 69.602, which elect this option and which serve 50,000 or fewer access lines in a study area as determined under §36.611(a)(8) of the Commission's rules. Cost and average schedule study areas may elect this incentive option for either Traffic Sensitive elements only or for Traffic Sensitive and Common Line elements. Average schedule study areas choosing this option shall retain their status as average schedule companies. Study areas electing the Pool Small Company Incentive Option shall not withdraw from this incentive option until the end of one, two-year period.

(c) **Customer Dividend Option.** Historically-based settlement rates used with this option shall be adjusted to reflect exogenous cost changes as applicable to companies filing under § 61.50 in addition to those cost changes that the Commission shall permit or require. Cost study areas participating in the association pools may elect this incentive option for either Traffic Sensitive elements only or for Traffic Sensitive and Common Line elements. Study areas electing the Customer Dividend Option shall not withdraw from this incentive option until the end of two, two-year periods. If a study area withdraws from this incentive option, it may not re-elect this option for four years.

(d) **Notice** A pool study area that chooses to elect one of the incentive options under this section must notify the association not later than December 31 of the year preceding the effective date of the next association annual access tariff i.e. July 1 of the following year.

Section 69.608 **COMPUTATION AND DISTRIBUTION OF TELEPHONE COMPANY NET BALANCES.**

(a) The association shall compute a monthly net balance for each telephone company participating in association tariffs. If such net balance is negative, that amount shall be billed by the association to the company. If such net balance is positive, the association shall disburse that amount to the company.

(b) The net balance for an average schedule company shall be equal to the payment due such company, calculated as prescribed in formulas filed pursuant to § 69.606, less the access revenues reported by the company.

(c) The net balance for a telephone company that participates in any of the association's optional incentive plans shall be equal to the payment due such company, computed pursuant to § 69.607, less the access revenues reported to the association.

(d) The net balance for any other telephone company that participates in association tariffs shall be equal to a payment calculated to reimburse the company for its operating expenses and taxes and to provide a share of remaining pool revenues based on relative net investment, less the access revenues reported to the association by the company.

Sections 69.609 and 69.610 are deleted. Current Sections 69.611 and 69.612 language remains unchanged and may be renumbered.

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ATTACHMENT 2

PROPOSED REVISED TARIFF REVIEW PLAN

Filing Entity: NECA **RORCOS-1(H)**
RATE OF RETURN
HISTORICAL COST ANALYSIS SUMMARY ($000)

DRAFT

	PYCOS PERIOD 1/94 THRU 12/94	COMMON LINE PAY PHONE	INSIDE WIRE	BFP	TOTAL
		(I)	(J)	(K)	(L)=I+J+K
	REVENUES				
100	Network Access	N/A	N/A	N/A	924,060
110	Uncollectibles	N/A	N/A	N/A	951
120	Common Line Support (NOTE 1)	N/A	N/A	N/A	N/A
130	Long Term	N/A	N/A	N/A	N/A
140	Transitional	N/A	N/A	N/A	N/A
150	Miscellaneous	N/A	N/A	N/A	N/A
160	Net Revenues	N/A	N/A	N/A	923,110
	EXPENSES				
170	Plant Specific	5,511	178	124,175	129,864
180	Plant Non Specific excl Depr & Amort	824	22	48,665	49,511
190	Depreciation/Amortization	2,134	122	140,112	142,368
200	Customer Operations	2,090	29	18,769	20,887
210	Access	0	0	0	0
220	Corporate Operations	2,862	130	84,159	87,151
230	AFUDC	0	0	0	0
240	Other Expenses and Adjustments	7	1	658	667
250	Taxes Other than FIT	634	24	41,314	41,972
260	Total Expenses and Other Taxes	14,062	506	457,852	472,420
	NECA ADJUSTMENTS				
261	NECA Administrative Expenses	322	0	13,429	13,751
262	Average Schedule Settlements	3,235	0	217,165	220,400
263	Incentive Company Settlements	0	0	0	0
264	Total NECA Adjustments	3,557	0	230,594	234,151
	FIT ADJUSTMENTS				
270	Adjustments for FIT	315	34	33,659	34,008
280	Amortized ITC	52	4	4,365	4,421
290	Federal Income Taxes	519	(10)	49,400	49,910
300	**TOTAL EXPENSES AND TAXES**	18,137	497	737,847	756,481
	TELEPHONE PLANT IN SERVICE				
310	General Support	4,618	221	336,298	341,138
320	Central Office Equipment - Switch	0	0	0	0
330	Central Office Equipment - Trans	938	0	218,722	219,661
340	Cable and Wire	6,233	0	1,879,475	1,885,708
350	Info Orig/Term Equipment	20,976	1,288	3,327	25,590
360	Amortizable Assets	114	1	5,657	5,772
370	Total Plant in Service	32,879	1,510	2,443,483	2,477,873
	ADJUSTMENTS TO TPIS				
380	Depreciation/Amortization Reserve	19,775	1,237	998,427	1,019,439
390	Accum. Deferred Income Tax	1,246	102	107,785	109,133
400	Other Rate Base Adjustments	1,818	86	129,944	131,848
	RETURN DATA				
410	Average Rate Base	13,676	256	1,467,216	1,481,148
420	Return	1,539	29	165,062	166,629
430	Rate of Return	11.25%	11.25%	11.25%	11.25%

Filing Entity: NECA RORCOS-1(H)
RATE OF RETURN
HISTORICAL COST ANALYSIS SUMMARY ($000)

DRAFT

PYCOS PERIOD 1/94 THRU 12/94	SWITCHED TRAFFIC SENSITIVE					
	LOCAL SWITCHING	EQUAL ACCESS	LOCAL TRANSPORT	INFORMATION	TOTAL SWTCH TRFFC SNSTV	SPECIAL ACCESS
	(M)	(N)	(O)	(P)	(Q)=M+N+O+P	(R)
REVENUES						
100 Network Access	514,283	0	219,429	2,731	736,443	48,677
110 Uncollectibles	49	0	24	0	73	2
120 Common Line Support	N/A	N/A	N/A	N/A	N/A	N/A
130 Long Term	N/A	N/A	N/A	N/A	N/A	N/A
140 Transitional	N/A	N/A	N/A	N/A	N/A	N/A
150 Miscellaneous	N/A	N/A	N/A	N/A	N/A	N/A
160 Net Revenues	514,234	0	219,404	2,731	736,370	48,675
EXPENSES						
170 Plant Specific	51,131	0	25,061	1	76,193	5,750
180 Plant Non Spec excl Depr & Amort	16,449	0	9,746	1	26,195	2,285
190 Depreciation/Amortization	77,069	0	38,123	2	115,193	7,509
200 Customer Operations	10,188	0	3,966	1,775	15,929	1,898
210 Access	0	0	0	0	0	0
220 Corporate Operations	43,147	0	17,106	799	61,052	3,751
230 AFUDC	0	0	0	0	0	0
240 Other Expenses and Adjustments	1,386	0	200	0	1,587	37
250 Taxes Other than FIT	14,696	0	7,729	2	22,427	1,856
260 Total Expenses and Other Taxes	214,066	0	101,931	2,579	318,575	23,087
NECA ADJUSTMENTS						
261 NECA Administrative Expenses	8,209	0	4,008	72	12,289	1,040
262 Average Schedule Settlements	211,500	0	71,600	0	283,100	14,900
263 Incentive Company Settlements	0	0	0	0	0	0
264 Total NECA Adjustments	219,709	0	75,608	72	295,389	15,940
FIT ADJUSTMENTS						
270 Adjustments for FIT	13,527	0	6,582	0	20,109	1,286
280 Amortized ITC	1,388	0	547	0	1,935	144
290 Federal Income Taxes	17,477	0	9,424	28	26,929	2,437
300 TOTAL EXPENSES AND TAXES	451,252	0	186,963	2,679	640,894	41,463
TELEPHONE PLANT IN SERVICE						
310 General Support	140,640	0	71,957	91	212,689	14,819
320 Central Office Equipment - Switch	776,825	0	40,469	601	817,895	0
330 Central Office Equipment - Trans	0	0	241,927	0	241,927	40,003
340 Cable and Wire	0	0	140,646	0	140,646	53,330
350 Info Orig/Term Equipment	0	0	0	0	0	51
360 Amortizable Assets	1,685	0	1,106	5	2,796	282
370 Total Plant in Service	919,147	0	496,105	698	1,415,949	108,486
ADJUSTMENTS TO TPIS						
380 Depreciation/Amortization Reserve	369,271	0	221,318	276	590,866	47,250
390 Accum. Deferred Income Tax	41,171	0	14,672	0	55,843	3,286
400 Other Rate Base Adjustments	51,136	0	28,257	42	79,435	6,150
RETURN DATA						
410 Average Rate Base	559,840	0	288,372	463	848,675	64,100
420 Return	62,982	0	32,442	52	95,476	7,211
430 Rate of Return	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%

Filing Entity: NECA RORCOS-1(P)
RATE OF RETURN
PROSPECTIVE COST ANALYSIS SUMMARY ($000)

DRAFT

	TEST YEAR FORECAST 7/95 THRU 6/96	COMMON LINE PAY PHONE	INSIDE WIRE	BFP	TOTAL
		(I)	(J)	(K)	(L)=I+J+K
	REVENUES				
100	Network Access	N/A	N/A	N/A	1,017,065
110	Uncollectibles	N/A	N/A	N/A	1,043
120	Common Line Support (NOTE 1)	N/A	N/A	N/A	N/A
130	Long Term	N/A	N/A	N/A	N/A
140	Transitional	N/A	N/A	N/A	N/A
150	Miscellaneous	N/A	N/A	N/A	N/A
160	Net Revenues	N/A	N/A	N/A	1,016,022
	EXPENSES				
170	Plant Specific	5,924	0	137,992	143,917
180	Plant Non Specific excl Depr & Amort	903	0	54,025	54,928
190	Depreciation/Amortization	2,809	0	163,177	165,986
200	Customer Operations	2,415	0	21,599	24,014
210	Access	0	0	0	0
220	Corporate Operations	2,999	0	92,242	95,241
230	AFUDC	0	0	0	0
240	Other Expenses and Adjustments	6	0	624	631
250	Taxes Other than FIT	714	0	46,601	47,314
260	Total Expenses and Other Taxes	15,772	0	516,260	532,032
	NECA ADJUSTMENTS				
261	NECA Administrative Expenses	326	0	13,739	14,066
262	Average Schedule Settlements	3,053	0	223,447	226,500
263	Incentive Company Settlements	0	0	0	0
264	Total NECA Adjustments	3,379	0	237,187	240,566
	FIT ADJUSTMENTS				
270	Adjustments for FIT	322	0	37,544	37,866
280	Amortized ITC	50	0	4,236	4,285
290	Federal Income Taxes	584	0	57,428	58,012
300	**TOTAL EXPENSES AND TAXES**	19,735	0	810,874	830,609
	TELEPHONE PLANT IN SERVICE				
310	General Support	5,218	0	380,360	385,578
320	Central Office Equipment - Switch	0	0	0	0
330	Central Office Equipment - Trans	1,159	0	265,459	266,619
340	Cable and Wire	7,513	0	2,152,326	2,159,838
350	Info Orig/Term Equipment	23,673	0	3,943	27,616
360	Amortizable Assets	126	0	6,265	6,391
370	Total Plant in Service	37,690	0	2,808,353	2,846,043
	ADJUSTMENTS TO TPIS				
380	Depreciation/Amortization Reserve	23,310	0	1,174,308	1,197,618
390	Accum. Deferred Income Tax	1,342	0	116,956	118,298
400	Other Rate Base Adjustments	1,650	0	116,337	117,988
	RETURN DATA				
410	Average Rate Base	14,689	0	1,633,426	1,648,115
420	Return	1,652	0	183,760	185,413
430	Rate of Return	11.25%	11.25%	11.25%	11.25%

Filing Entity: NECA RORCOS-1(P)
RATE OF RETURN
PROSPECTIVE COST ANALYSIS SUMMARY ($000)

DRAFT

			--- SWITCHED TRAFFIC SENSITIVE ---			
TEST YEAR FORECAST 7/95 THRU 6/96	**LOCAL SWITCHING**	**EQUAL ACCESS**	**LOCAL TRANSPORT**	**INFORMATION**	**TOTAL SWTCH TRFFC SNSTV**	**SPECIAL ACCESS**
	(M)	(N)	(O)	(P)	(Q)=M+N+O+P	(R)
REVENUES						
100 Network Access	611,895	0	249,789	3,006	864,691	56,660
110 Uncollectibles	42	0	11	0	53	1
120 Common Line Support	N/A	N/A	N/A	N/A	N/A	N/A
130 Long Term	N/A	N/A	N/A	N/A	N/A	N/A
140 Transitional	N/A	N/A	N/A	N/A	N/A	N/A
150 Miscellaneous	N/A	N/A	N/A	N/A	N/A	N/A
160 Net Revenues	611,853	0	249,778	3,006	864,638	56,659
EXPENSES						
170 Plant Specific	59,452	0	28,479	1	87,932	6,520
180 Plant Non Spec excl Depr & Amort	19,382	0	11,079	1	30,462	2,692
190 Depreciation/Amortization	95,967	0	46,518	2	142,487	9,533
200 Customer Operations	11,750	0	4,452	1,983	18,186	2,126
210 Access	0	0	0	0	0	0
220 Corporate Operations	48,953	0	19,545	863	69,361	4,232
230 AFUDC	0	0	0	0	0	0
240 Other Expenses and Adjustments	1,182	0	219	0	1,401	31
250 Taxes Other than FIT	17,282	0	8,969	2	26,253	2,092
260 Total Expenses and Other Taxes	253,970	0	119,260	2,852	376,081	27,227
NECA ADJUSTMENTS						
261 NECA Administrative Expenses	8,031	0	3,860	66	11,958	784
262 Average Schedule Settlements	255,600	0	78,600	0	334,200	17,793
263 Incentive Company Settlements	0	0	0	0	0	0
264 Total NECA Adjustments	263,631	0	82,460	66	346,158	18,576
FIT ADJUSTMENTS						
270 Adjustments for FIT	17,008	0	8,745	1	25,753	1,834
280 Amortized ITC	1,410	0	538	0	1,949	131
290 Federal Income Taxes	21,088	0	10,668	31	31,786	2,671
300 TOTAL EXPENSES AND TAXES	538,689	0	212,389	2,948	754,026	48,474
TELEPHONE PLANT IN SERVICE						
310 General Support	165,828	0	84,360	106	250,294	17,002
320 Central Office Equipment - Switch	938,802	0	44,355	706	983,864	0
330 Central Office Equipment - Trans	0	0	285,031	0	285,031	50,310
340 Cable and Wire	0	0	177,199	0	177,199	59,306
350 Info Orig/Term Equipment	0	0	0	0	0	28
360 Amortizable Assets	2,081	0	1,275	6	3,361	328
370 Total Plant in Service	1,106,710	0	592,219	818	1,699,748	126,973
ADJUSTMENTS TO TPIS						
380 Depreciation/Amortization Reserve	457,753	0	269,557	347	727,656	56,726
390 Accum. Deferred Income Tax	44,935	0	15,967	0	60,902	3,277
400 Other Rate Base Adjustments	46,330	0	25,658	44	72,031	5,783
RETURN DATA						
410 Average Rate Base	650,353	0	332,353	515	983,221	72,753
420 Return	73,165	0	37,390	58	110,612	8,185
430 Rate of Return	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%

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ATTACHMENT 3

DRAFT
POOL ADMINISTRATION PROCEDURES
FOR
NECA INCENTIVE SETTLEMENT OPTIONS

NATIONAL EXCHANGE CARRIER ASSOCIATION INC

Customer Dividend

Incentive Settlement Option

Pool Administration Procedures

Working Draft - May 12, 1995

CONTENTS

Page

Introduction

BACKGROUND

The FCC's movement towards incentive regulation began in 1987, with the re-examination of the Rate of Return Regulation. The Commission adopted a price cap plan for AT&T in 1989. This plan separated services into three baskets with individual price ceilings to prevent monopoly pricing. It provided incentives for companies to achieve excess profits through the achievement of productivity increases and cost containment. Additionally, a consumer dividend was included in the price ceiling adjustment formula.

In 1990 the Commission implemented price cap regulation for the eight largest exchange carriers representing approximately 94% of access lines. Service baskets resembling AT&T's were created and a profit sharing mechanism was added. If EC profits rise above or fall below defined thresholds, customers share in the gains and losses. The upper and lower limits were set to ensure a certain level of protection from the risks inherent in a fluctuating market for the exchange carrier as well as their customers.

On May 13, 1993, the FCC adopted the Optional Incentive Regulation (OIR) Plan. This plan integrated both rate of return and price cap incentive regulations. Its intent was to separate prices from costs for two-year intervals. Incentive Plan Participants have a total commitment period of four years. The rates applicable to the two-year tariff period equal historic cost based rates, allowing companies to increase their profits by lowering their costs and/or increasing demand. Profit thresholds were also added.

Recognizing that this single plan did not adequately address the special needs of the smaller exchange carriers, the FCC also modified its "Section 61.39" small company tariff plan. The plan was tailored for Subset III telephone companies with fewer than 50,000 lines who were outside NECA's pools. The plan was made available for Cost and Average Schedule study areas, and is similar to the OIR plan but does not include profit sharing or routine earnings monitoring. The commitment period is two years.

In 1995 the FCC removed profit sharing from one of its LEC price cap options. Substituting a customer dividend for profit sharing is NECA's response to the Commission's belief that profit sharing creates perverse incentives.

The following procedures focus on NECA's administration of the Customer Dividend Incentive Settlement Option. In this option, each company's services are separated into three service groups (Common Line (CL), Traffic Sensitive (TS) Switched Access, and TS Special Access), which have the equivalent of "price ceilings" called settlement rates. A company charges NECA's uniform tariff rates to customers, but recovers from the pool based on its own settlement rates. This regulation provides incentives for companies to achieve and retain profits in excess of the authorized rate of return, through the achievement of productivity increases resulting from cost containment and/or demand stimulation. It also provides a direct and immediate benefit to customers via an explicit dividend that is built into the EC's settlement rate. This customer dividend is predetermined and guaranteed to the customer through a reduction in the EC's settlement rate for each year in the two year settlement period. The current Customer Dividend is .0065%.

An exchange carrier may elect one of two options. The EC can participate in the TS pool only, or in a combination of both the CL and TS pools. ECs are required to remain in the incentive plan for two terms, lasting two years each. ECs may elect to participate in the Incentive Options in December of the current year for participation effective July of the following year. Additionally, ECs withdrawing from the incentive plan may not re-elect this incentive option for four years.

The procedures also contain NECA's administration of the common line and traffic sensitive pools, a general overview of pooling and the settlement cycle, line reporting instructions for the EC1070-I, and FCC certification requirements. Also included is a brief discussion of revenue and cost analysis, which places pooling in a broader perspective. It concludes with a listing of NECA contacts in both the Regional Offices and Headquarters, a glossary and an index. Each section begins with an outline of what follows to help you locate data quickly and easily.

SECTION 1

Pooling Overview

This section discusses pooling in general terms and provides an overview of the pools and funds administered by NECA.

Introduction

Pooling Overview

Common Line Pool

- Long Term Support

Traffic Sensitive Pool

- Switched Access
- Special Access

Incentive Pool Settlement Formulas

- Common Line Formula
- Traffic Sensitive Formula

Universal Service

- Universal Service Fund
- Lifeline Assistance Program

Exhibits

- Settlement System Overview
- Customer Dividend Example

1.0

Introduction

In 1983, the Federal Communications Commission established the National Exchange Carrier Association *(NECA)* to develop interstate access tariffs, administer access revenue pools and distribute monthly settlements for more than 1,000 participating companies. NECA assists local telephone companies in recovering the cost of providing access to their local telephone networks. NECA also acts as an industry agent for universal service. Although all local telephone companies are members of NECA, not all participate in NECA's tariffs or revenue pools.

The following procedures contain specific reporting and procedural guidelines for companies who participate in NECA's incentive settlement option and report their actual revenue, demand and costs to NECA. Cost companies who wish to participate in NECA's incentive option, do so at the study area level. Average Schedule companies who choose to participate in this incentive plan, must first convert to the cost settlement basis in order to become eligible.

An incentive pool participant is a study area for which pool settlements are based on individual formula driven settlement rates and demand levels. An exchange carrier may elect to participate in the Traffic Sensitive (TS) pool only, or in both the Common Line (CL) and TS pools. ECs are required to remain in the incentive plan for two terms, lasting two years each, for a total of four years. ECs may elect to participate in the Incentive Options in December of the current year for participation effective July of the following year . Additionally, ECs withdrawing from the incentive plan may not re-elect this option for four years.

Incentive regulation differs from the traditional Rate-of-Return regulation associated with Cost and Average Schedule settlements. This regulation provides incentives for companies to achieve and retain profits in excess of the authorized rate of return of 11.25%, through the achievement of productivity increases resulting from cost containment and/or demand stimulation.

For users who are unfamiliar with pooling, this binder also contains a general overview of the NECA pools and settlement system, a discussion of the Revenue and Cost Analysis function and a glossary of commonly used terms.

1.1

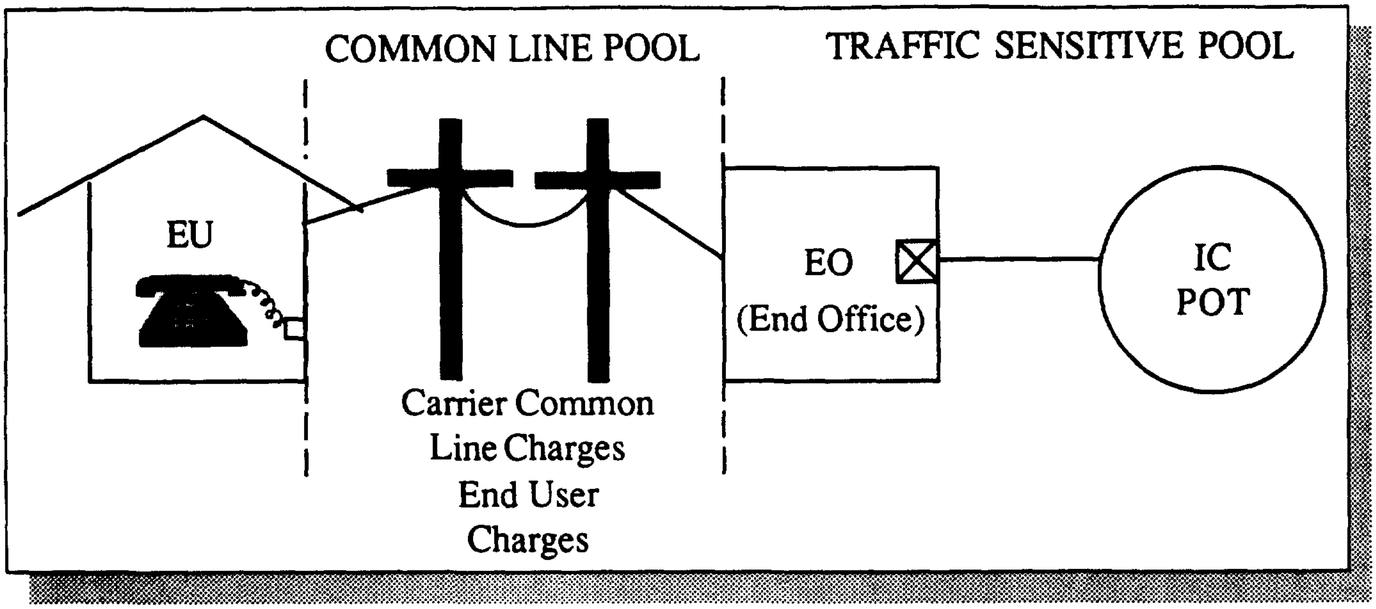
Pooling Overview

Pooling is based on risk-sharing and the matching of revenues to costs. This means that if the revenues derived from a service are reportable to a pool, the associated costs should also be reported. Local telephone companies *(referred to from here forward as exchange carriers or ECs)* that participate in the NECA tariff charge common rates. These rates are developed by NECA using member company data. They are designed to recover the costs of providing interstate access, while providing a reasonable return on the exchange carriers' investment. Each month participating exchange carriers report their interstate access revenues. The revenues are pooled. From this access revenue pool, incentive exchange carriers receive a settlement, based on their own settlement rate for each service group. The settlement rate is developed based on historical data and is updated at the end of the first year of the two-year settlement period as actual cost study data becomes available.

By participating in the NECA pools, member companies eliminate the need to file individual access charge tariffs and reduce the risk of volatility of individual company revenues.

Exchange carriers who participate in the NECA pools have signed a Revenue Distribution Agreement with NECA that sets forth the terms and conditions for participation in interstate access service revenue pooling. The Agreement also specifies the existence of an "open window" which allows exchange carriers to update or correct revenue and demand data for up to 24 months after the data was initially reported. The pooling process and all information submitted by pool participants is subject to examination by NECA to the extent necessary to verify the accuracy and reasonableness of all submitted items. This includes revenues, investment, expenses and taxes underlying the compensation amounts. To assure pool integrity, pool participants must maintain backup data sufficient to verify data accuracy. In addition, exchange carriers who complete a merger or acquisition must notify NECA *(for additional information see Section 3, par. 3.2.5)*.

To accomplish the equitable pooling and distribution of revenues, NECA operates two pools: common line and traffic sensitive. The following diagram illustrates the local facilities for which companies report data to these pools.



The Common Line Pool

A "common line" is the portion of the exchange carriers facilities that extends from the customer's *(referred to from here forward as end user)* premises to the exchange carrier's end office. The common line pool recovers the interstate portion of the costs of maintaining those facilities. The types of revenues reported to this pool are subscriber line charges and carrier common line charges.

Subscriber line charges are revenues paid by business and residential end users to cover a portion of the interstate costs of providing the common line. Carrier common line charges are paid by long distance *(referred to from here forward as interexchange)* carriers to exchange carriers for their use of local facilities to connect long distance calls and cover the remaining portion of interstate common line costs.

1.2.1

Long Term Support

When NECA began operating the pools in May 1984, participation in the common line pool was mandatory for all exchange carriers. In April 1989, however, the FCC permitted voluntary membership in the common line pool. To maintain the NECA carrier common line rate at the nationwide average, another revenue stream was introduced to the common line pool: Long Term Support.

Long Term Support is funded by exchange carriers who file their own Carrier Common Line tariff. The percentage of the annual Long Term Support requirement paid by each of these companies shall equal the number of its common lines divided by the total number of common lines of all telephone companies paying Long Term Support.

1.3

The Traffic Sensitive Pool

The term "traffic sensitive" refers to the portion of the exchange carriers facilities that include the end office and extends from the end office to the connection with the interexchange carrier. The types of revenue and expenses reported to this pool are switched access and special access.

Switched access charges recover the cost of the switching systems in the end office that carry interstate traffic. They also include the trunks that extend from the exchange carrier's end office to the interexchange carrier point of termination.

Special access charges recover the cost of exchange carrier facilities that provide interstate access without using end office switches. An example of this type of facility is dedicated lines.

1.4
Incentive Option Settlement Formulas

This section describes the current interstate access incentive settlement formulas filed by NECA and approved by the FCC effective ______.

1.4.1

The Common Line Formula

The formula covers the cost of subscriber line plant and associated circuit equipment, embedded inside wire, and semi-public paystations. The following two formulas are used to calculate the monthly settlement for the Common Line service group:

Per Line	=	*Retention of Billed End User Tariff Revenues (Including SLC Waiver Revenues)*
Per Minute Formula	=	*[(CL Revenue Requirement - End User Revenue) ÷ (Minutes of Use (1+G))] (1 - D)*

Note: The current rates for NECA's End User tariff participants are $3.50 for residential lines, and $6.00 for business lines.

Growth (G) equals the Carrier Common Line Minutes of Use (MOU) during the most recent 12-month period over Carrier Common Line MOU in the preceding 12-month period.

Customer Dividend (D) equals .65% or .0065.

1.4.2

Traffic Sensitive Formula

These formulas cover the costs of line terminations, local switching, intercept, directory assistance, local transport and special access.

Traffic Sensitive Switched Access		
Per Minute Formula	=	*[Switched Revenue Requirement ÷ Minutes of Use] (1 - D)*

Note: See Exhibit 1.2 for an illustrative example of the TS Switched settlement rate calculation.

Traffic Sensitive Formula (cont'd)

Traffic Sensitive Special Access		
Retention Ratio	=	*[Special Access Revenue Requirement ÷ Special Access Revenue] (1 - D)*

Note: If there are any changes in the Special Access Tariff Rates during the period, the Special Access Revenues are adjusted to reflect the impact of the rates in effect at the end of the period.

Traffic Sensitive Special Access Formula:

Traffic Sensitive Special Access		
Special Access Settlement	=	*[Special Access Revenue x Retention Ratio x Tariff Rate Adjustment Factor*

Note: Tariff Rate Adjustment Factor = 1/(1 + Tariff Special Access Relative Rate Change since the last Settlement Period).

1.5

Universal Service

In addition to operating the access pools and administering the Long Term Support, NECA also administers the following universal service programs, established by the Federal Communications Commission.

1.5.1

Universal Service Fund *(USF)*

For some exchange carriers, particularly those in sparsely populated or geographically remote areas, the cost of providing service is well above the national average. To assist exchange carriers in providing affordable local telephone service, NECA administers the Universal Service Fund *(USF)*.

Companies qualify for USF support based on the costs of their local loops. Exchange carriers with loop costs higher than 115% of the national average receive a payment from the Fund to help offset the cost of providing local service in high cost areas. Each year NECA conducts a data collection from cost companies to determine the national average loop cost and each study area's USF expense adjustment.

1.5.2

Lifeline Assistance *(LA)* Program

In addition to administering USF, which helps companies to maintain reasonably priced telephone service in high cost areas, NECA administers the following Lifeline Assistance programs:

> The FCCs Subscriber Line Charge Waiver program enables exchange carriers to waive or reduce the subscriber line charge for qualified residential subscribers. The interstate amount waived or reduced is reported to the NECA pools.
>
> The FCCs Link-Up America program enables exchange carriers to reduce or defer connection costs for qualified residential subscribers. These amounts are reported to NECA in the same way.

These programs help offset the cost of providing service to low income subscribers. NECA bills qualified interexchange carriers directly for both universal service programs (USF & LA), then flows the funds to qualified exchange carriers.

Exhibit 1.1

NECA COST SETTLEMENT SYSTEM OVERVIEW (FOR NECA TARIFF PARTICIPANTS)

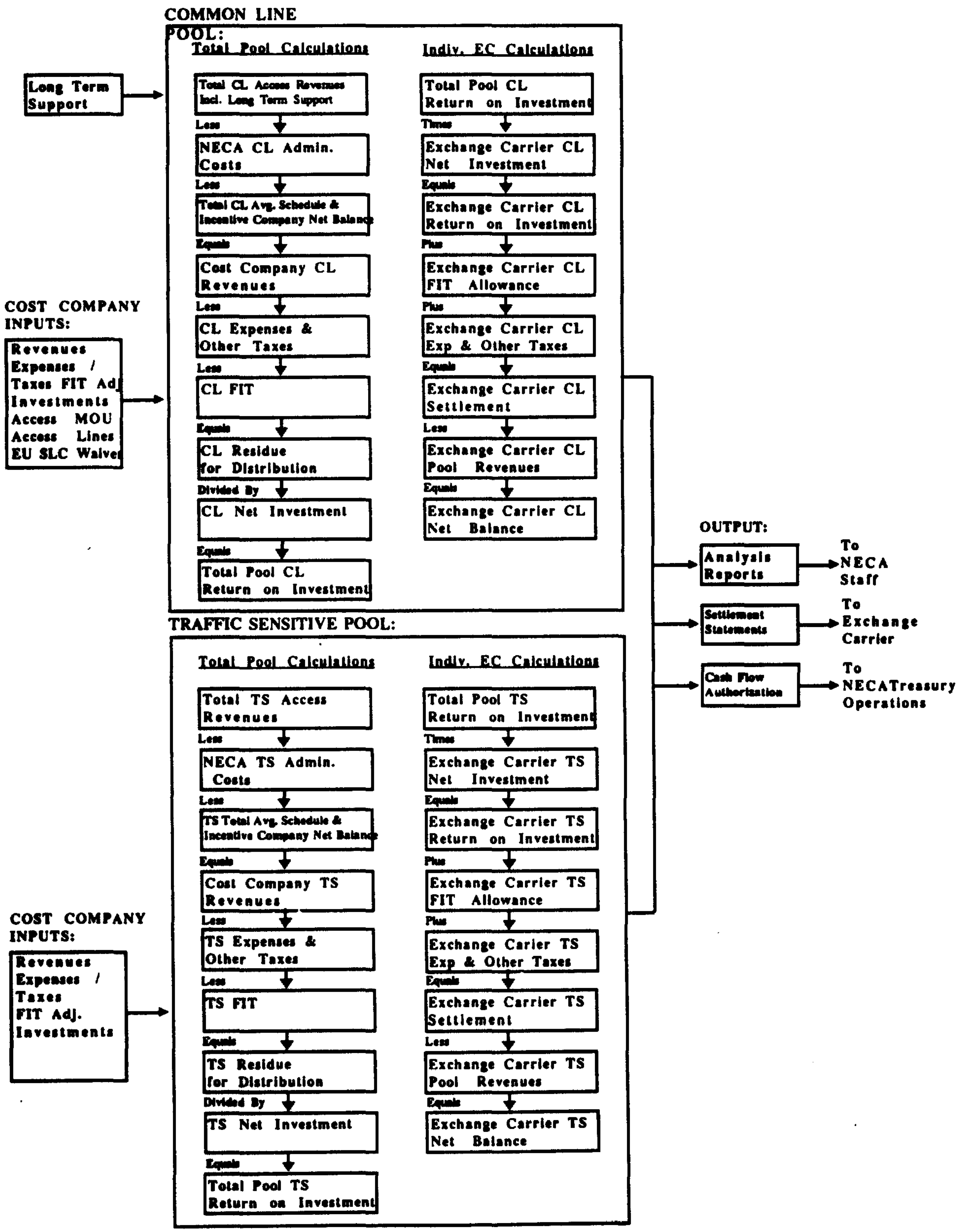


Exhibit 1.2

Customer Dividend Illustrative Example

Assuming a Four Year Term
TS Switched Settlement Rate Calculations

1.	Customer Dividend Percent	0.65%
	FIRST 2-YEAR PERIOD	
2.	1994 Revenue Requirement	$400
3.	1994 MOU	10,000
4.	Rate before Customer Dividend	$0.040000 (Line 2/Line 3)
5.	Customer Dividend Amount	$0.000260 (Line 1 x Line 4)
6.	Settlement Rate 95/96	$0.039740 (Line 4 - Line 5)
7.	Customer Dividend Amount	$0.000258 (Line 6 x Line 1)
8.	Settlement Rate 96/97	$0.039482 (Line 6 - Line 7)
	SECOND 2-YEAR PERIOD	
9.	7/95 Thru 6/97 Revenue Requirement	$940
10.	7/95 Thru 6/97 MOU	24,000
11.	Rate Before Customer Dividend	$0.039167 (Line 9 / Line 10)
12.	Customer Dividend Amount	$0.000255 (line 1 x Line 11)
13.	Settlement Rate 97/98	$0.038912 (Line 11 - Line 12)
14.	Customer Dividend Amount	$0.000253 (Line 13 x Line 1)
15.	Settlement Rate 98/99	$0.038659 (Line 13 - Line 14)